

## Romanian central bank turning outright hawkish

Latest central bank minutes show concerns are mounting on the inflation front while the economic balance is seen skidding. As usual, the vote to keep the key rate at 2.50% was unanimous



The National Bank of Romania building in Bucharest

Source: Shutterstock

The inflation rate has surprised to the upside so far this year.

Among its main drivers, as emphasised by the National Bank of Romania (NBR) is the ongoing upward pressures on the unit labour costs and a reacceleration of wage hikes. Apparently, the labour market tightness issue has been more thoughtfully studied at the latest central bank meeting, in the context of the historically low unemployment rate and the high number of employees in the economy. The real net wage increase is expected to be in double digits in 2019.

Overall, inflation is seen on a “significantly higher path” than in the February 2019 inflation report, which was predicting a 3.0% inflation in December 2019 and 3.1% in December 2020. Short-term inflation is also seen above the 3.50% upper bound of the target band while the overall risk balance is considered to be tilted to the upside.

---

*While not our base case, we believe the chances for a rate hike this year have increased. For now, we think it's likely the central bank will try to maintain tight liquidity conditions and wait for inflation to calm down*

---

The widening current account deficit has gained even more attention than usual as it suggests “external competitiveness losses of the economy” while its decreased coverage by capital inflows caused “serious reasons for concern by some board members”. Net exports are expected to increase their negative contribution to GDP growth. All-in-all, the current account deficit is “posing a concern in terms of the sustainability of economic growth and macro-stability.”

Some board members have been unusually blunt concerning the exchange rate. Increased pressure on the exchange rate is seen as “very likely”, in the context of a deteriorating external position. As for inflation, the exchange rate impact “would probably be relatively more inflationary than previously anticipated”, along with other factors such as aggregate demand and labour costs.

Regarding the latest changes to the bank tax legislation, the unanimous opinion was the amendments satisfy the central bank requirements, but it complicates the monetary transmission.

The need for a tighter monetary policy to anchor deteriorating inflation expectations has not only been hinted but explicitly put forward. For now, it seems that “strict control over money market liquidity” is the “adequate” way to go. However, the “adequate dosage and pace of adjustment of the monetary policy stance” was mentioned again, suggesting the NBR might have some more bullets ready.

While not our base case, we believe the chances for a rate hike this year have increased. For now, we think it's likely the central bank will try to maintain tight liquidity conditions and wait for inflation to calm down.

A rate hike might be more seriously considered to anchor inflation expectations if inflation persistently stays above the target band in the second half of 2019.

## Author

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

*(being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.